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STATE OF COLORADO

GENERAL SUPPORT SERVICES OFFICE OF THE STATE CONTROLLER

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Clifford W. Hall
State Controller

TO: Pat Romero, Coordinator
Colorado Peak Performance

FROM: Clifford W. Hall 
State Controller

DATE: March 16, 1998

SUBJECT: Taxability or Fiscal Rule Implications of Non-Monetary Incentives

You provided our office a listing of non-monetary incentives that the Colorado Peak Performance Core Team believes may be appropriate for peak performance awards. You requested our advice concerning the taxability or reportability of these awards.

The issue of the "taxability" or "reportability" of non-cash incentive awards for state employees has been the subject of considerable research and discussion over the past few years. For the most part the answer to this question when addressing generalities is; "It depends." The *Internal Revenue Service Code* and other federal tax regulations governing reportability give general examples and then use terms such as "de minimis fringe", "reasonable and necessary" and "job related" when addressing specifics.

The State Controller's Alert #99, dated March 19, 1997 contains guidance on reporting both cash and non-cash awards for state employees at year end. Alert #108, dated December 12, 1997 gave additional guidance on recording incentive awards for state employees. In summary, the guidance contained in the alerts places the responsibility on the agency controller to report to central payroll (through CPPS) any employee incentive award (cash or non-cash) reportable as income on an employee's W-2.

The following are the criteria contained in the Alerts that are to be used by agencies in determining if a cash or non-cash incentive award is reportable for IRS purposes:

1. All cash awards are reportable on an employee's W-2 regardless of dollar amount.
2. All non-cash awards greater than \$100 (individually or in aggregate) during the calendar year are reportable on an employee's W-2.
3. Non-cash awards of \$100 or less are NOT reportable on an employee's W-2, unless they exceed \$100 in aggregate during any calendar year.
4. Certain types of employee awards (e.g., bus passes, employee parking, length of service, and safety) have special exemptions and limits. IRS guidelines should be consulted for these types of items.

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My staff has researched the listing that you provided and has furnished me with the attached. Where possible, specific IRS Regulation has been cited. Should you have additional questions, please contact John Ivy at (303) 866-3765.

Thank you.

Attachment

cc. Kevin Jacobs, HRS
Dennis Wolfard, SCO
John Ivy, SCO

- Housing - Reportable, if not considered de minimis.
- Insurance - Accident and health insurance is not reportable. Long term care to the extent provided through flexible spending is considered income and is reportable (Sec. 106).
- Leisure Travel
 1. Use of Travel Trailer - Not reportable if it is of no cost to the state.
 2. Use of Cabin or Time Share - Not reportable if it is of no cost to the state.
 3. Airline tickets - Reportable as income because they represent a cost to the state.
 4. Hotel / Meals- Reportable as income because they represent a cost to the state.
- Meals - Reportable (if not de minimis), depending upon frequency and amount (Sec. 1.132-6(e)(i)).
- PERA Service Credit - Reportable because of additional cost to state.
- Professional Membership Dues - Professional membership dues required by the job are not reportable, individual membership dues, not job related, are reportable.
- Recreation (Various Passes or Licenses) - Passes and licenses may be reportable depending on the length of the pass or license. If a one day pass or license is awarded and the cost to the state is de minimis, like a one time (single day) pass or license, is not reportable. A season pass or license would be reportable (Sec. 1.132-6 (e)(2)).
- Transportation
 1. Use of a State Car - If de minimis, for example one day per month, it is not reportable, but currently the personal use of a state car is not allowed by State Fiscal Rules.
 2. ECO or Bus Pass - Not reportable if under \$60 per month (Sec. 132(a)(5)).
 3. Parking Paid - An employer may provide up to \$170 per month for employee's parking without the benefit being reportable (Sec. 132 (f)(2)(B)).
 4. Gasoline Paid - Reportable as income because they represent a cost to the state.

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